

LARRY HOGAN
Governor

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Maryland

INSURANCE ADMINISTRATION

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October 19, 2020

The Honorable Lawrence J. Hogan, Jr.
Governor of the State of Maryland
State House
100 State Circle
Annapolis, MD 21401

The Honorable Bill Ferguson
President of the Senate
State House, H-107
100 State Circle
Annapolis, MD 21401

The Honorable Adrienne A. Jones
Speaker of the House
State House, H-101
100 State Circle
Annapolis, MD 21401

Re: Report on Capital Stock and Surplus Requirement in Compliance with Section 2-110(b) of the Insurance Article, Annotated Code of Maryland MSAR#9573

Dear Sirs and Madam:

Section 2-110(b) of the Insurance Article, Annotated Code of Maryland, provides that at least once every five years after December 1, 1995, the Insurance Commissioner shall prepare a report recommending any changes that the Commissioner considers appropriate to the capital stock and surplus requirements set forth in Sections 4-104 and 4-105 of the Insurance Article. For the reason stated below, I do not believe any changes to those minimum capital stock and surplus requirements are necessary at this time.

While Sections 4-104 and 4-105 of the Insurance Article establish the minimum capital stock and surplus requirements an insurer must satisfy to qualify for a certificate of authority to transact insurance business in Maryland, Section 4-103(c) authorizes the Commissioner to require a greater level of capital and surplus for each insurer. Specifically, each insurer's assets and surplus must be reasonable in relation to its outstanding liabilities and adequate to its financial needs. A number of factors must be considered in determining whether an insurer's assets and surplus are reasonable in relation to its outstanding liabilities and adequate to meet its needs, such as the size of the insurer; the extent to which the insurer's business is diversified among the several lines of insurance; the number and size of

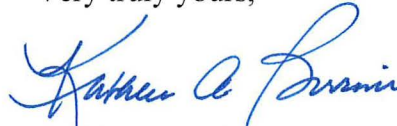
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risks insured; the quality, diversification, and liquidity of the insurer's investment portfolio; and the levels of surplus maintained by comparable insurers.

In addition, the risk-based capital ("RBC") standards for insurers, set forth in Title 4 Subtitle 3 of the Insurance Article, supplement the minimum requirements of Sections 4-104 and 4-105. They provide a standardized approach to determine the amount of capital and surplus appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. RBC standards provide a means of setting capital requirements based on the degree of risk taken by an insurer by applying factors to various assets, premium, and claim reserve items. The RBC formula and factors to be applied to asset, premium and reserves are regularly reviewed and modified as appropriate by the National Association of Insurance Commissioners, of which Maryland is a member.

For these reasons, I do not believe any changes to the minimum capital stock and surplus requirements set forth in Sections 4-104 and 4-105 of the Insurance Article are necessary at this time.

Very truly yours,



Kathleen A. Birrane
Insurance Commissioner

cc: Sarah Albert, DSL Library (5 copies)
Jay Coon, Deputy Commissioner
Michael Paddy, Director of Government Affairs